

CITY OF SUMNER
FINANCIAL STATEMENTS
JUNE 30, 2011

CITY OF SUMNER

INDEPENDENT AUDITOR'S REPORT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

**AUDITOR'S REPORT ON COMPLIANCE,
COMMENTS AND RECOMMENDATIONS**

JUNE 30, 2011

City of Sumner
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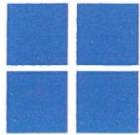
City of Sumner

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gary Walke	Mayor	January 2012
Dave Meighan	Mayor Pro Tem	January 2014
Douglas Daniels	Council Member	January 2014
Billy Lehmkuhl	Council Member	January 2012
Darren Paulus	Council Member	January 2014
Jackie Schlatter	Council Member	January 2012
Lisa Oberbroeckling	City Clerk	Indefinite
Marlowe Hoth (1)	Public Works Director	Retired
David Lease (2)	Public Works Director	Indefinite
Michael Stoessel	Treasurer	Indefinite
David Engelbrecht (1)	City Attorney	Changed
Pat Dillon (2)	City Attorney	Indefinite
Dennis Cain	Chief of Police	Indefinite
Tim Duhrkopf	Fire Chief	Indefinite

- (1) Before January 2011
 (2) After December 2010

CITY OF SUMNER



SHAFFER COMPANY, P.C.

Certified Public Accountant

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117 East First Street
Sumner, Iowa 50674
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Roger L. Shaffer, C.P.A.

Member AICPA and ISCPA

Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sumner, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Sumner's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sumner as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my reports dated March 20, 2012, on my consideration of the City of Sumner's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 8 through 14 and 32 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Sumner's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2010 (none of which are presented herein) and expressed an unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SHAFFER COMPANY, P.C.

Shaffer Company, P.C.

Sumner, Iowa

March 20, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Sumner provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 1.0%, or approximately \$13,000, from fiscal 2010 to fiscal 2011.
- Disbursements increased 8.2%, or approximately \$116,000, in fiscal 2011 from fiscal 2010. Early retirement of debt made up most of this increase.
- The City's total cash basis net assets decreased 10.6%, or approximately \$249,200, from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities decreased approximately \$206,700 and the assets of the business type activities decreased by approximately \$42,500.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system, and refuse pickup and transportation to the county owned landfill. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out to those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and sanitation funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliation between the government-wide statement and the fund financial statements follow the fund financial statements.

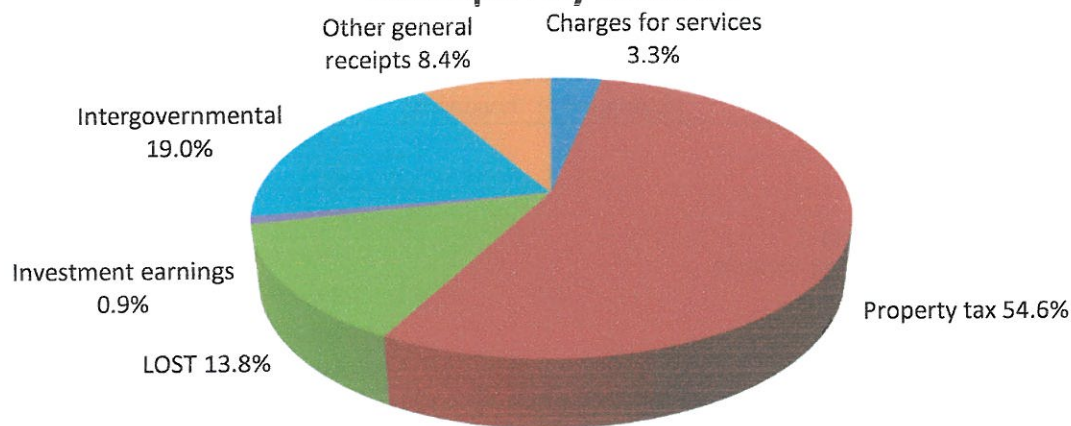
GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$1.529 million to \$1.322 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

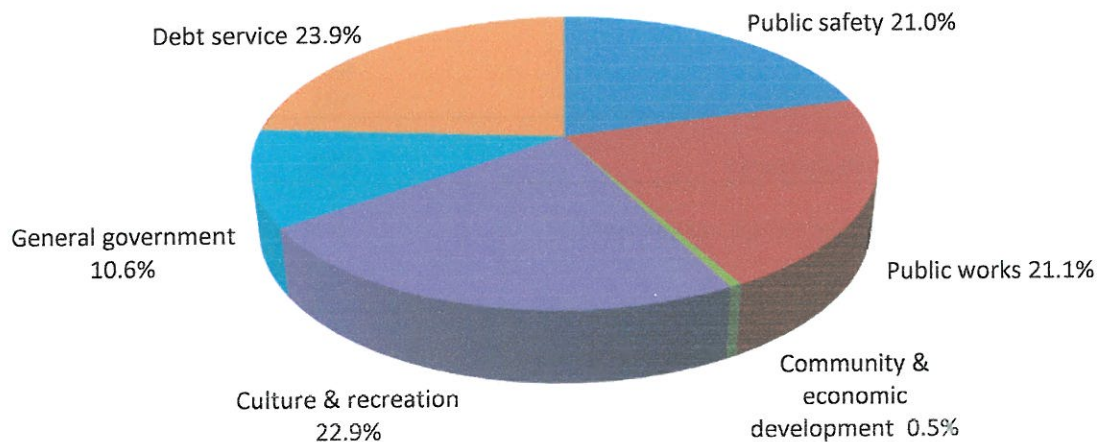
GOVERNMENTAL ACTIVITIES

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)			
	Year ended June 30,		
	2011	2010	2009
Receipts:			
Program receipts:			
Charges for services	\$ 45	44	41
General receipts:			
Property tax	722	706	684
Local option sales tax	183	193	185
Unrestricted investment earnings	11	17	23
Intergovernmental	251	243	217
Other general receipts	112	108	98
Total receipts	1,324	1,311	1,248
Disbursements:			
Public safety	322	274	276
Public works	323	227	212
Health & social services	0	4	4
Culture & recreation	351	325	337
Community & economic development	7	0	0
General government	162	179	159
Debt service	366	406	218
Capital projects	0	0	0
Total disbursements	1,531	1,415	1,206
Change in cash basis net assets before transfers	(207)	(104)	42
Transfers, net	0	101	14
Change in cash basis net assets	(207)	(3)	56
Cash basis net assets beginning of year	1,529	1,532	1,476
Cash basis net assets end of year	\$ 1,322	1,529	1,532

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased by 1.0%, or \$13,000. The total cost of all programs and services increased by approximately \$116,000, or 8.2%.

The City increased property tax rates from \$12.958 per \$1,000 of taxable valuation in 2010 to \$12.915 for 2011. Property tax receipts, excluding tax increment financing (TIF), were \$655,000 for 2011, an increase of \$24,000 or 3.8%. Taxes raised from TIF decreased from \$75,000 in 2010 to \$67,000 in 2011, a \$8,000 decrease.

The cost of all governmental activities this year was \$1.531 million compared to \$1.415 million last year. However, as shown in the Statement of Activities and Net Assets on pages 16-17, the amount taxpayers ultimately financed for these activities was only \$1.234 million because some of the cost was paid by those directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest.

BUSINESS TYPE ACTIVITIES

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)				
		Year ended June 30,		
		2011	2010	2009
Receipts:				
Program receipts:				
Charges for services:				
	Water	\$ 175	170	161
	Sewer	369	357	360
	Sanitation	208	213	182
General receipts				
	Unrestricted interest on investments	2	3	5
	Intergovernmental	0	5	39
	Bond & Loan proceeds	0	0	110
	Other general receipts	28	15	7
Total receipts		782	763	864
Disbursements:				
	Water	208	120	140
	Sewer	424	340	362
	Sanitation	193	200	384
Total disbursements		825	660	886
Change in cash basis net assets before transfers		(43)	103	(22)
Transfers, net		0	(101)	(14)
Change in cash basis net assets		(43)	2	(36)
Cash basis net assets beginning of year		827	825	861
Cash basis net assets end of year		\$ 784	827	825

Total business type activities receipts for the fiscal year were \$782,000 compared to \$763,000 last year. The cash balance decreased by approximately \$43,000 from the prior year. Total disbursements for the fiscal year increased by 25.0% to a total of \$825,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Sumner completed the year, its governmental funds reported a combined fund balance of \$1.322 million, a decrease of \$207,000 below last year's total of \$1.529 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$11,000 from the prior year to \$335,000.
- The Road Use Tax Fund cash balance decreased by \$34,600 to \$323,000 during the fiscal year. The City intends to use this money to upgrade the condition of all the City's roads.
- At the end of the fiscal year, the cash balance of the Special Revenue Fund (Employees' Benefit) was \$56,700, an increase of \$27,700 from the previous year.
- The Special Revenue Fund (Local Option Sales Tax) cash balance decreased by \$80,000 to \$337,000 during the fiscal year. This fund is being allowed to grow in order to fund future projects.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

For the propriety funds, the City reported a combined fund balance of \$784,000, a decrease of approximately \$43,000 when compared to last year's total of \$827,000. The following are the major reasons for the changes in fund balances from the prior year.

- The Water Fund cash balance decreased by \$29,000 to \$267,600.
- The Sewer Fund cash balance decreased by \$52,000 to \$411,000.
- The Sanitation Fund cash balance increased by \$38,500 to \$106,000.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget. This amendment was approved on March 21, 2011 to provide for additional revenues and disbursements in certain City departments. The increase in the budget amendment was for the early retirement of debt, and additional costs in public works and culture and recreation. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$24,000 less than budgeted. This was primarily due to the City receiving less in intergovernmental receipts than budgeted.

While total disbursements were \$135,500 under the amended budget, disbursements for the function of debt service exceeded its amended budget. This was caused by the early payment of some of the general obligation bonds.

DEBT ADMINISTRATION

At June 30, 2011, the City had approximately \$2.416 million in bonds and other long-term debt, compared to approximately \$2.887 million last year, as shown below:

Outstanding Debt at Year-End (Expressed in Thousands)		Year ended June 30,		
		2011	2010	2009
General obligation bonds - Fire Station	\$	0	0	135
General obligation bonds - Streetscape & Refunding		350	695	830
General obligation - Solid Waste Disposal Note		0	0	98
Sewer revenue bonds		2,066	2,192	2,314
Total	\$	2,416	2,887	3,377

During the fiscal year, the City paid off early, general obligation bonds maturing in the years 2014 to 2016 totaling \$205,000.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property, excluding agriculture land valuations and before rollback, within the City's corporate limits. The City's outstanding general obligation debt of \$350,000 is significantly below its constitutional debt limit.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Sumner's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates, and fees that will be charged for various City activities.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase.

These indicators were taken into account when adopting the budget for fiscal year 2012. The City adopted property tax rates of \$13.003 per \$1,000 of taxable valuation for 2012 compared to \$12.915 for 2011. Budgeted revenues for fiscal year 2012 is \$2.120 million, a decrease of 0.5% over the final 2011 budget. Budgeted disbursements are expected to decrease by approximately \$365,000 when compared to the final 2011 budget for a total of \$2.060 million for fiscal year 2012.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$60,000 by the end of the City's next fiscal year end.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lisa Oberbroeckling, City Clerk, 105 East First Street, Sumner, Iowa.

CITY OF SUMNER
Basic Financial Statements

City of Sumner

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2011

Functions / Programs:	Disbursements	Program Receipts		
		Charges for Service	Operating Grants Restricted Interest	Capital Grants Restricted Interest
Governmental activities:				
Public safety	\$ 321,623	0	15,100	0
Public works	322,910	0	200,777	0
Health & social services	0	0	0	0
Culture and recreation	351,022	44,535	29,850	0
Community & economic development	7,372	0	5,651	0
General government	161,679	0	0	0
Debt service	365,597	0	0	0
Capital projects	0	0	0	0
Total governmental activities	1,530,203	44,535	251,378	0
Business type activities				
Water	208,312	174,646	0	0
Sewer	423,691	369,015	0	0
Sanitation	193,356	208,080	0	0
Total business type activities	825,359	751,741	0	0
Totals	\$ 2,355,562	796,276	251,378	0
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Nonexpendable - Cemetery perpetual care				
Expendable:				
Urban renewal purposes				
Debt service				
Streets				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements

Exhibit A

	Governmental Activities	Business Type Activities	Total
	(306,523)	0	(306,523)
	(122,133)	0	(122,133)
	0	0	0
	(276,637)	0	(276,637)
	(1,721)	0	(1,721)
	(161,679)	0	(161,679)
	(365,597)	0	(365,597)
	0	0	0
	(1,234,290)	0	(1,234,290)
	0	(33,666)	(33,666)
	0	(54,676)	(54,676)
	0	14,724	14,724
	0	(73,618)	(73,618)
	(1,234,290)	(73,618)	(1,307,908)
	655,032	0	655,032
	67,277	0	67,277
	182,789	0	182,789
	11,474	1,973	13,447
	111,058	29,145	140,203
	0	0	0
	1,027,630	31,118	1,058,748
	(206,660)	(42,500)	(249,160)
	1,529,102	826,974	2,356,076
\$	1,322,442	784,474	2,106,916
	59,902	0	59,902
	80,954	0	80,954
	47,534	100,000	147,534
	323,175	0	323,175
	401,896	0	401,896
	408,981	684,474	1,093,455
\$	1,322,442	784,474	2,106,916

City of Sumner

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2011

	Special Revenue	
	Road Use	
	General	Tax
Receipts:		
Property tax	\$ 502,628	0
Tax increment financing (TIF) receipts	0	0
Other city tax	0	0
Licenses and permits	5,396	0
Use of money and property	7,040	0
Intergovernmental	44,950	200,777
Charges for services	44,535	0
Miscellaneous	102,232	0
Total receipts	706,781	200,777
Disbursements:		
Operating		
Public safety	261,844	0
Public works	62,571	235,419
Health & social services	0	0
Culture & recreation	317,952	0
Community & economic development	0	0
General government	153,712	0
Debt service	0	0
Capital projects	0	0
Total disbursements	796,079	235,419
Excess of receipts over disbursements	(89,298)	(34,642)
Other financing sources (uses):		
Operating transfers in	77,924	0
Operating transfers out	0	0
Total other financing sources (uses)	77,924	0
Net changes in cash balances	(11,374)	(34,642)
Cash balances beginning of year	346,310	357,817
Cash balances end of year	\$ 334,936	323,175
Cash Basis Fund Balances		
Nonspendable - Cemetery perpetual care	\$ 0	0
Restricted for:		
Urban renewal purposes	0	0
Debt service	0	0
Streets	0	323,175
Other purposes	0	0
Assigned	276,867	0
Unassigned	58,069	0
Total cash basis fund balances	\$ 334,936	323,175

Exhibit B

Special Revenue		Debt Service	Other Nonmajor Governmental		Total
Employees' Benefits	Local Option Sales Tax		Funds		
152,404	0	0	0		655,032
0	0	0	67,277		67,277
0	182,789	0	0		182,789
0	0	0	0		5,396
0	2,325	0	2,109		11,474
0	0	0	5,651		251,378
0	0	0	0		44,535
0	0	0	3,430		105,662
152,404	185,114	0	78,467		1,323,543
59,779	0	0	0		321,623
24,920	0	0	0		322,910
0	0	0	0		0
32,066	0	0	1,004		351,022
0	0	0	7,372		7,372
7,967	0	0	0		161,679
0	0	365,597	0		365,597
0	0	0	0		0
124,732	0	365,597	8,376		1,530,203
27,672	185,114	(365,597)	70,091		(206,660)
0	0	365,597	0		443,521
0	(264,970)	0	(178,551)		(443,521)
0	(264,970)	365,597	(178,551)		0
27,672	(79,856)	0	(108,460)		(206,660)
29,018	417,203	0	378,754		1,529,102
56,690	337,347	0	270,294		1,322,442
0	0	0	59,902		59,902
0	0	0	80,954		80,954
0	0	0	47,534		47,534
0	0	0	0		323,175
56,690	337,347	0	7,859		401,896
0	0	0	75,766		352,633
0	0	0	(1,721)		56,348
56,690	337,347	0	270,294		1,322,442

City of Sumner

Exhibit C

Statement of Cash Receipts, Disbursement and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2011

		Enterprise Funds			
		Water	Sewer	Sanitation	Total
Operating receipts:					
Charges for service	\$	174,646	369,015	208,080	751,741
Operating disbursements:					
Business type activities		208,312	226,451	193,356	628,119
Excess (deficiency) of operating receipts over (under) operating disbursements		(33,666)	142,564	14,724	123,622
Non-operating receipts (disbursements)					
Use of money and property		653	1,265	55	1,973
Intergovernmental		0	0	0	0
Miscellaneous		4,044	1,379	23,722	29,145
Debt service		0	(197,240)	0	(197,240)
Capital projects		0	0	0	0
Net non-operating receipts (disbursement)		4,697	(194,596)	23,777	(166,122)
Excess (deficiency) of receipts over (under) disbursements		(28,969)	(52,032)	38,501	(42,500)
Operating transfers in (out), net		0	0	0	0
Net changes in cash balances		(28,969)	(52,032)	38,501	(42,500)
Cash balances beginning of year		296,541	462,891	67,542	826,974
Cash balances end of year	\$	267,572	410,859	106,043	784,474
Cash Basis Fund Balances					
Restricted for debt service	\$	0	100,000	0	100,000
Unassigned		267,572	310,859	106,043	684,474
Total cash basis fund balances	\$	267,572	410,859	106,043	784,474

See notes to financial statements.

CITY OF SUMNER
Notes to the Financial Statements

City of Sumner
Notes of Financial Statements
June 30, 2011

(1) Summary of Significant Accounting Policies

The City of Sumner is a political subdivision of the State of Iowa located in Bremer and Fayette Counties. It was first incorporated in 1872 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, public improvements and general administrative service. The City also provides water, sewer and sanitation for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Sumner has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete.

City of Sumner
Notes of Financial Statements
June 30, 2011

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

City of Sumner
Notes of Financial Statements
June 30, 2011

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursement, the fixed charges and the capital improvement costs that are not paid for other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account of the collection of the one percent sales tax and its uses.

The Employees' Benefits Fund is used to account for the collection of payroll taxes and provide social security and medicare, IPERS, and health insurance benefits to its employees.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Sanitation Fund accounts for the operation and maintenance of the City's sanitation system.

City of Sumner
Notes of Financial Statements
June 30, 2011

C. Measurement Focus and Basis of Accounting

The City of Sumner maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the function of Debt Service.

City of Sumner
Notes of Financial Statements
June 30, 2011

(2) Deposits and Investments

The City's deposits and investments at June 30, 2011, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 145,000	13,799	130,000	67,145	275,000	80,944
2013	150,000	8,180	135,000	62,920	285,000	71,100
2014	55,000	2,255	139,000	58,533	194,000	60,788
2015	0	0	143,000	54,015	143,000	54,015
2016	0	0	148,000	49,367	148,000	49,367
2017-2021	0	0	816,000	171,438	816,000	171,438
2022-2024	0	0	555,000	36,466	555,000	36,466
Totals	\$ 350,000	24,234	2,066,000	499,884	2,416,000	524,118

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

City of Sumner

Notes of Financial Statements

June 30, 2011

The urban renewal tax increment revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100 percent of the debt service requirements over the life of the bonds. The proceeds of the urban renewal tax increment revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. Total principal and interest remaining on the bonds is \$327,805, payable through June 2016. For the current year, interest paid and total TIF receipts were \$13,850 and \$67,277, respectively. These bonds are part of the streetscape and refunding bonds issued in August of 2005.

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$3.1 million in sewer revenue notes issued in October 2003. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2024. Annual principal and interest payments on the notes are expected to require a majority of net sewer receipts. The total principal and interest remaining to be paid on the notes is \$2,565,884. For the current year, principal and interest paid and total customer net receipts were \$197,240 and \$142,564, respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to the sewer revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.

(4) **Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary except for police employees, in which case the percentages are 6.64% and 9.95%, respectively. These rates tend to change from year to year. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$39,576, \$36,599, and \$32,907, respectively, equal to the required contributions for each year.

City of Sumner
Notes of Financial Statements
June 30, 2011

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 27,446
Sick Leave *	32,745
Total	\$ 60,191

* Sick leave is not payable upon termination, retirement or death.

This liability has been computed based on rates of pay as of June 30, 2011.

(6) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the program level. During the year ended June 30, 2011, disbursements in the Debt Service functions exceeded the amount budgeted.

City of Sumner
Notes of Financial Statements
June 30, 2011

(7) Risk Management

The City of Sumner is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Related Party Transactions

The City had business transactions between the City and the City's officials and employees totaling \$14,040 during the year ended June 30, 2011.

(9) Hospital Facilities Revenue Bonds

The City has issued \$18 million of hospital facilities revenue bonds under the provisions of Chapter 419 of the Code of Iowa during the fiscal year ended June 30, 2011. The bond and related interest are payable solely from the revenues derived from the project and the bond and interest do not constitute liabilities of the City.

(10) Deficit Balance

The Housing Rehab Project Fund had a deficit balance of \$1,721 at June 30, 2011. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of the grant.

(11) Accounting Change

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011.

City of Sumner
Notes of Financial Statements
June 30, 2011

(12) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to:	Transfer from:	Amount
General	Special revenue Local option sales tax	\$ 58,835
General	Special revenue Urban renewal tax increment	19,089
Debt service	Special revenue Urban renewal tax increment	111,624
Debt service	Special revenue Local option sales tax	206,135
Debt service	Capital projects Streetscape	47,838
Total		\$ 443,521

CITY OF SUMNER
Required Supplementary Information

City of Sumner

Budgetary Comparison Schedule
Of Receipts, Disbursements, and Change in Balances
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 655,032	0
Tax increment financing	67,277	0
Other city tax	182,789	0
Licenses & permits	5,396	0
Use of money & property	11,474	1,973
Intergovernmental	251,378	0
Charges for services	44,535	751,741
Miscellaneous	105,662	29,145
Total receipts	1,323,543	782,859
Disbursements:		
Public safety	321,623	0
Public works	322,910	0
Health & social services	0	0
Culture & recreation	351,022	0
Community & economic development	7,372	0
General government	161,679	0
Debt service	365,597	0
Capital projects	0	0
Business type activities	0	825,359
Total disbursements	1,530,203	825,359
Excess of receipts over disbursements	(206,660)	(42,500)
Other financing sources, net	0	0
Excess of receipts and other financing sources over disbursements and other financing uses	(206,660)	(42,500)
Balances beginning of year	1,529,102	826,974
Balances end of year	\$ 1,322,442	784,474

Net	Budgeted Amounts Original	Budgeted Amounts Final	Final to Net Variance	Net as % of Final Budget
655,032	648,756	648,756	6,276	1%
67,277	66,349	66,349	928	1%
182,789	195,976	195,976	(13,187)	-7%
5,396	5,810	5,810	(414)	-7%
13,447	38,395	42,395	(28,948)	-68%
251,378	272,364	282,564	(31,186)	-11%
796,276	799,406	842,406	(46,130)	-5%
134,807	31,640	45,840	88,967	194%
2,106,402	2,058,696	2,130,096	(23,694)	-1%
321,623	301,555	332,555	10,932	3%
322,910	246,332	356,332	33,422	9%
0	5,400	5,400	5,400	100%
351,022	312,941	413,941	62,919	15%
7,372	0	50,000	42,628	85%
161,679	163,165	178,288	16,609	9%
365,597	243,651	308,651	(56,946)	-18%
0	0	0	0	0%
825,359	757,929	845,929	20,570	2%
2,355,562	2,030,973	2,491,096	135,534	5%
(249,160)	27,723	(361,000)		
0	0	0		
(249,160)	27,723	(361,000)		
2,356,076	2,143,777	2,356,075		
2,106,916	2,171,500	1,995,075		

City of Sumner

Notes to Required Supplementary Information - Budgetary Reporting

June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Disbursements for the Proprietary Funds are required to be budgeted. During the year, a budget amendment increased budgeted disbursements by \$630,123. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the debt service function.

CITY OF SUMNER

CITY OF SUMNER
Other Supplementary Information

City of Sumner

Schedule 1

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2011

	Special Revenue	Special Revenue	Capital Projects	Capital Projects	Permanent	
	Urban Renewal Tax Increment	Housing Rehab Project	Streetscape	Project Reach	Cemetery Perpetual Care	Total
Receipts:						
Tax Increment Financing (TIF)	\$ 67,277	0	0	0	0	67,277
Use of money and property	0	0	440	986	683	2,109
Intergovernmental	0	5,651	0	0	0	5,651
Miscellaneous	0	0	1,187	0	2,243	3,430
Total receipts	67,277	5,651	1,627	986	2,926	78,467
Disbursements:						
Culture & recreation	0	0	0	0	1,004	1,004
Community & economic development	0	7,372	0	0	0	7,372
Total disbursements	0	7,372	0	0	1,004	8,376
Excess (deficiency) of receipts over (under) disbursements	67,277	(1,721)	1,627	986	1,922	70,091
Operating transfers in (out), net	(130,713)	0	(47,838)	0	0	(178,551)
Net change in cash balances	(63,436)	(1,721)	(46,211)	986	1,922	(108,460)
Cash balances beginning of year	144,390	0	93,745	74,780	65,839	378,754
Cash balances end of year	\$ 80,954	(1,721)	47,534	75,766	67,761	270,294
Cash Basis Fund Balances						
Nonspendable - Cemetery perpetual care	\$ 0	0	0	0	59,902	59,902
Restricted for other purposes	80,954	0	47,534	0	7,859	136,347
Assigned for other purposes	0	0	0	75,766	0	75,766
Unassigned	0	(1,721)	0	0	0	(1,721)
Total cash basis fund balances	\$ 80,954	(1,721)	47,534	75,766	67,761	270,294

See accompanying independent auditor's report.

CITY OF SUMNER
Schedule of Indebtedness
Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds and notes:			
Streetscape & Refunding	August 1, 2005	3.5 to 4.3%	\$ 1,270,000
Revenue bonds:			
Sewer revenue bonds	October 27, 2003	3.25%	\$ 3,100,000
Totals			

Schedule 2

Balance Beginning of Year	Issued during Year	Redeemed during Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
695,000	0	345,000	350,000	20,598	1,150
2,192,000	0	126,000	2,066,000	71,240	5,595
\$ 2,887,000	0	471,000	2,416,000	91,838	6,745

Schedule 3

City of Sumner
Bond and Note Maturities
June 30, 2011

Streetscape & Refunding
\$1,270,000
Issued August 1, 2005

Year Ending June 30,	Interest Rates	Amount
2012	3.875%	\$ 145,000
2013	3.950%	150,000
2014	4.100%	55,000
Total		\$ 350,000

Sewer Revenue Bonds
\$3,100,000
Issued October 27, 2003

Year Ending June 30,	Interest Rates	Amount
2012	3.250%	\$ 130,000
2013	3.250%	135,000
2014	3.250%	139,000
2015	3.250%	143,000
2016	3.250%	148,000
2017	3.250%	153,000
2018	3.250%	158,000
2019	3.250%	163,000
2020	3.250%	168,000
2021	3.250%	174,000
2022	3.250%	179,000
2023	3.250%	185,000
2024	3.250%	191,000
Total		\$ 2,066,000

CITY OF SUMNER

City of Sumner

Schedule 4

Schedule of Receipts by Source and Disbursements by Function
All Governmental Funds

For the Last Ten Years ended June 30, 2011

		2011	2010	2009	2008
Receipts					
Property tax	\$	655,032	631,115	610,021	531,673
Tax Increment Financing (TIF)		67,277	74,877	74,360	205,281
Other city tax		182,789	192,909	185,125	186,583
License & permits		5,396	5,151	5,865	4,811
Use of money & property		11,474	16,643	23,269	54,826
Intergovernmental		251,378	243,576	216,954	222,619
Charges for services		44,535	43,805	40,975	37,155
Bond proceeds		0	0	0	0
Miscellaneous		105,662	102,718	90,953	109,520
Total receipts	\$	1,323,543	1,310,794	1,247,522	1,352,468
Disbursements:					
Operating:					
Public Safety	\$	321,623	273,850	275,775	270,317
Public Works		322,910	231,528	212,305	195,663
Health & Social Services		0	0	3,600	0
Culture & Recreation		351,022	324,371	337,136	284,308
Community & Economic Development		7,372	0	0	0
General Government		161,679	179,444	159,297	155,188
Debt Service		365,597	405,564	217,656	209,282
Capital Projects		0	0	0	0
Total Disbursements	\$	1,530,203	1,414,757	1,205,769	1,114,758

2007	2006	2005	2004	2003	2002
581,249	571,683	524,802	517,750	513,493	489,410
104,111	32,267	146,895	178,169	165,855	138,638
162,488	146,654	176,797	132,625	146,711	113,818
5,081	6,920	5,379	7,247	3,270	7,459
104,161	65,698	30,252	10,353	25,849	53,757
217,118	218,377	215,032	321,617	287,656	268,922
39,470	46,968	54,101	51,476	59,619	54,281
0	1,270,000	0	285,000	0	0
89,653	239,856	90,031	120,546	169,145	365,214
1,303,331	2,598,423	1,243,289	1,624,783	1,371,598	1,491,499

385,227	277,381	316,433	321,092	274,974	296,067
207,944	234,852	256,823	166,956	215,638	251,115
0	0	0	0	0	0
276,250	257,385	242,507	313,944	227,887	247,271
0	0	4,401	80,000	0	0
130,564	159,763	169,339	169,721	183,752	132,032
209,408	633,691	419,263	183,251	190,226	370,758
37,253	713,713	281,271	64,130	68,171	167,959
1,246,646	2,276,785	1,690,037	1,299,094	1,160,648	1,465,202

CITY OF SUMNER

CITY OF SUMNER

Independent Auditor's Report
on Internal Control
over Financial Reporting
and on Compliance
and Other Matters Based
on an Audit of Financial Statements
Performed in Accordance
with Government Auditing Standards



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Member AICPA and ISCPA

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

**To the Honorable Mayor and
Members of the City Council:**

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sumner, Iowa, as of and for the year ended June 30, 2011, which collectively comprise of the City's basic financial statements listed in the table of contents and have issued my report thereon dated March 20, 2012. My report expressed an unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Sumner's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the City of Sumner's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Sumner's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant or material weaknesses have been identified. However, described in the accompanying Schedule of Findings and Questioned Costs, I identified certain deficiencies in internal control over financial reporting I consider to be material deficiencies and other deficiencies I consider to be significant weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Sumner's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-11 and II-B-11 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sumner's financial statement are free of material misstatements, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Governmental Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the Accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of the statutes.

The City of Sumner's responses to findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. While I have expressed my conclusions on the City's responses, I did not audit the City of Sumner's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sumner, and other parties to whom the City of Sumner may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Sumner during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

SHAFFER COMPANY, P.C.

Shaffer Company, P.C.

Sumner, Iowa

March 20, 2012

City of Sumner
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose a non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES

- II-A-11 Segregation of duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all sometimes done by the same person.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate this.

Conclusion - The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

City of Sumner
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Part II: Findings Related to the Financial Statements, Continued:

- II-B-11 Preparation of Financial Statements – Reporting financial data reliably in accordance with generally accepted accounting principles requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation – I recognize that with a limited number of office employees, preparation of the financial statements with its footnotes and exhibits is difficult. The City should obtain additional knowledge on generally accepted accounting principles through reading relevant accounting literature and attending classes.

Response – The City will obtain additional knowledge on generally accepted accounting principles in any way possible that is economically feasible, in order to improve the ability to prepare and take responsibility for the financial statements.

Conclusion – Response accepted.

Part III: Other Findings Related to Statutory Reporting:

- III-A-11 Certified Budget - Disbursements during the year ended June 30, 2011, exceeded the amounts budgeted in the Debt Service function. Chapter 384.18 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended, if applicable.

Conclusion - Response accepted.

- III-B-11 Questionable Disbursements - No disbursements were noted for parties, banquets, or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

- III-C-11 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Sumner
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Part III: Other Findings Related to Statutory Reporting, Continued:

III-D-11 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-E-11 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

III-F-11 Business Transactions - Business transactions between the City and City officials or employees are summarized as follows:

Name, title, and business connection	Transaction description	Amount
Roger Burgart, Employee	Spraying	\$4,700
David Meighan, Council member d/b/a/ Meighan Tiling & Excavating	Backhoe & excavating	\$1,590
Mike Sattler, Employee	Lawn care	\$330
Douglas Daniesl, Council member d/b/a Sumner Gazette	Legal publications & printing	\$7,420

The transactions above do not appear to represent conflicts of interest.

Competitive pricing was used for spraying with Roger Burgart being the lower cost. This does not appear to represent a conflict of interest.

III-G-11 Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

City of Sumner
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Part III: Other Findings Related to Statutory Reporting, Continued:

III-H-11 Revenue Bonds and Notes - No instances of non-compliance with the revenue bond and note resolutions were noted.

III-I-11 Urban Renewal Tax Increment Fund - The Urban Renewal Tax Increment Fund (TIF) balance at June 30, 2011 is \$80,954 and appears to be an excessive amount.

Recommendation - The City should reduce future TIF Debt Certificate amounts to correct this overage.

Response - The City will implement a plan to reduce the cash balance of the TIF Fund on hand.

Conclusion - Response accepted.

III-J-11 Financial Condition - The Housing Rehab Project Fund had a deficit balance of \$1,721 at June 30, 2011.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response - The deficit was due to a expenditure within the being made prior to the receipt of the grant money. The deficit was subsequently eliminated.

Conclusion - Response accepted.

City of Sumner

Audit Staff

This audit was performed by:

Roger L. Shaffer, C.P.A., Owner & Manager of the Firm

SHAFFER COMPANY, P.C.

A handwritten signature in blue ink, appearing to read 'R. Shaffer', with a long horizontal flourish extending to the right.

ROGER L. SHAFFER
Certified Public Accountant